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ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Commissioner

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December 3, 2008

Mr. Don Brandt
President and CEO
Arizona Public Service
400 No. Fifth Street
M.S. 9042
Phoenix, AZ 85004

Re: Effect of Capital Markets on Renewable Energy Projects in Arizona.

Dear Mr. Brandt:

As you know, the recent economic downturn has had a dramatic impact on U.S. credit markets. I am concerned about the effects of the current capital markets on proposed renewable energy projects in Arizona. It would appear that capital has become more difficult for renewable energy developers to obtain, and is decidedly more costly now than in the recent past.

As I understand it, the constriction in the capital markets may impact the timing of the construction of the pending Solana Project, which is awaiting final power plant and line siting approval by this Commission later this week.

Please address the current status of the Solana project, the effects, if any, of the capital markets on the project and any related issues addressing financing for Solana. APS officials have informed me that they continue to expect the Solana project to go forward next year but that they have been told by Abengoa, the developer of the project, that Abengoa is currently experiencing difficulty accessing the financing necessary to proceed with construction. In light of this information, please tell the Commission when APS expects Abengoa to fulfill their financing obligations and what APS intends to do in the event that the project financing does not come to fruition.

In addition, I have been informed by APS personnel that the company has abandoned its participation in the 250 MW solar consortium project announced on December 6, 2007. Please explain to the Commission what led to the apparent cancellation of the 250 MW consortium project, and what plans APS has to replace that solar generation project in order to meet the Company's Renewable Energy Standard requirements.

Finally, in light of the ongoing capital challenges, please identify what measures APS anticipates taking in order to ensure that it can meet its obligations under the Renewable Energy Standard, including whether APS has considered the possibility that it may be required to take a more direct role in the construction of these projects.

December 3, 2008

Page 2

Thank you for your prompt consideration of these matters.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kris Mayes', with a stylized, flowing script.

Kris Mayes
Commissioner

Cc: Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Ernest Johnson
Janice Alward
Lyn Farmer
Brian McNeil
Rebecca Wilder